

108 FERC ¶ 61,007  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;  
Nora Mead Brownell and Joseph T. Kelliher.

TransAlta Centralia Generation L.L.C.                      Docket No.    ER04-810-000

ORDER ACCEPTING AND SUSPENDING FILING AND ESTABLISHING  
HEARING AND SETTLEMENT JUDGE PROCEDURES

(Issued July 2, 2004)

1. In this order, we accept for filing TransAlta Centralia Generation L.L.C.'s (TransAlta) proposed Rate Schedule No. 1 for Reactive Supply and Voltage Control from Generation Sources Service and suspend it for five months, to become effective December 3, 2004, subject to refund. We also establish hearing and settlement judge procedures. This action benefits customers because it provides the parties with a forum in which to resolve their disputes over TransAlta's proposed reactive power service.

**Background**

2. On May 3, 2004, in Docket No. ER04-810-000, TransAlta submitted for filing a rate schedule specifying its annual revenue requirement for supplying reactive power service to Bonneville Power Administration (Bonneville) from its coal-fired Centralia Steam Electric Generating Facility (Centralia Facility) located in Centralia, Washington. TransAlta requests waiver of the 60-day prior notice requirements to permit its rate schedule to become effective June 2, 2004 in order to permit TransAlta to begin receiving compensation for reactive power service supplied to Bonneville.

3. TransAlta states that, on April 10, 2000, it executed an Interconnection Agreement with Bonneville to interconnect its Centralia Facility to Bonneville. According to TransAlta, Bonneville is the control area operator of the Centralia Facility.

4. TransAlta states that the Interconnection Agreement requires TransAlta to provide reactive power service to Bonneville. TransAlta states that in May 2000 it began providing reactive power service to Bonneville without compensation. TransAlta states that, as a transmission customer of Bonneville, it requested a waiver of Bonneville's Schedule 2 ancillary service charge for reactive power since TransAlta was supplying reactive power service to Bonneville pursuant to frequent requests by Bonneville

dispatchers to vary voltage. TransAlta states that Bonneville did not grant its waiver request, but TransAlta nonetheless continued to provide such service to Bonneville. TransAlta states it finally filed this rate schedule in order to begin receiving compensation for the reactive power service it is providing Bonneville.

5. According to TransAlta, section 7(b) of the Interconnection Agreement authorizes TransAlta to seek compensation for this service, stating “[n]othing in this section obligates Bonneville to, or would preclude [TransAlta] from pursuing compensation for VAR support within the appropriate regional reliability forum.” TransAlta states that, despite the specific contract language, the Commission rather than a “regional reliability forum” has jurisdiction over a request for approval of the proposed charge for reactive power service.

6. TransAlta states that the proposed rate schedule sets forth TransAlta’s revenue requirement to provide reactive power service based on the costs of the Centralia Facility. TransAlta’s proposed revenue requirement is derived by first developing a fixed capability component that recovers the portion of plant costs attributable to the Centralia’s Facility capacity to produce reactive power; specifically, TransAlta allocates generator, exciter and other plant costs to the provision of reactive power service based on an allocation factor which reflects the relationship between real and reactive power. The revenue requirement is then determined by applying a fixed charge rate.

7. TransAlta argues that Commission policy provides for generators to be compensated for providing reactive power service either as an ancillary service<sup>1</sup> or in emergency conditions.<sup>2</sup> TransAlta avers that the Commission reaffirmed this policy in Order Nos. 2003 and 2003-A, stating that if a transmission provider pays its own generators for reactive power service then it must also pay other interconnected generators for the same service.<sup>3</sup> Therefore, TransAlta argues that the Commission recognizes that transmission providers are responsible for the costs of ancillary services provided to the transmission system by interconnected generators like TransAlta.

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<sup>1</sup> *Citing* Mirant Chalk Point, LLC, et al., 96 FERC ¶ 61,310 (2001).

<sup>2</sup> *Citing* Consumers Energy Co., 93 FERC ¶ 61,339 at 62,154 (2000), *order on reh’g*, 94 FERC ¶ 61,230, *order on reh’g*, 95 FERC ¶ 61,131 (2001).

<sup>3</sup> *Citing* Standardization of Generator Interconnection Agreements and Procedures, Order No. 2003, FERC Stats. & Regs. ¶ 31,146 (2002), *order on reh’g*, Order No. 2003-A, FERC Stats. & Regs. ¶ 31,160 (2004).

**Notice of Filing and Responsive Pleadings**

8. Notice of the filing in Docket No. ER04-810-000 was published in the Federal Register, 69 Fed. Reg. 29,294 (2004), with interventions and protests due on or before May 24, 2004. On May 19, 2004, Bonneville filed a motion to intervene and motion for extension of time to file protest. On May 20, 2004, the Commission granted an extension of time to file a protest to and including June 11, 2004. On June 14, 2004, Calpine Corporation filed a motion to intervene. On June 14, 2004, the Northwest Independent Power Producers Coalition (NIPPC) filed a motion to intervene and comments, supporting TransAlta's filing for compensation for reactive power service from Bonneville. On June 14, 2004, Bonneville filed a protest. On May 24, 2004, Tractebel Energy Marketing, Inc. filed a motion to intervene. On June 22, 2004, TransAlta filed an answer to Bonneville's protest.

**Cost Issues**

9. Bonneville argues that TransAlta's filing lacks the necessary supporting workpapers and schedules to permit Bonneville to independently derive TransAlta's proposed annual revenue requirement. Bonneville argues that the Commission's regulations require TransAlta to file information in sufficient detail to justify the proposed revenue requirement. Bonneville states that TransAlta's failure to provide the required information supports a Commission finding that TransAlta's filing is patently deficient and therefore should be rejected.

10. In the alternative, Bonneville requests that the Commission set this matter for hearing to address factual issues which the Commission cannot resolve without the benefit of an evidentiary hearing. In particular, Bonneville contends that TransAlta's cost information is questionable. For example, Bonneville states that TransAlta alleges that the total value of the Centralia Facility is \$757 million. Bonneville argues, however, that the total purchase price of the Centralia Facility was actually only \$452 million, or less than 60 percent of the value now claimed by TransAlta.

11. Bonneville also states that TransAlta claims that a property tax bill for the Centralia Facility is \$5 million with annual operation and maintenance expenses of almost \$31 million, but offers no support for these amounts. Bonneville notes that the Centralia Facility also includes a gas-fired generation facility, a coal mine and associated coal production facilities. Bonneville argues that TransAlta's proposed revenue requirement is unjust and unreasonable if it includes recovery of property taxes and operation and maintenance expenses associated with the gas-fired generation facility, coal mine and coal production facilities. Bonneville argues that TransAlta failed to demonstrate how costs are allocated among the various facilities located at the Centralia Facility.

12. Bonneville argues that TransAlta's use of the capability methodology to develop its proposed revenue requirement is inappropriate. Bonneville states that this methodology is based on the capability of a generator to provide reactive power service and the actual amount of reactive power produced is not considered. Bonneville argues that this method is only appropriate for determining the costs of a system-wide reactive power ancillary service where generators are always available to provide reactive power to the system.

### **Contract Language**

13. Bonneville argues that the Interconnection Agreement does not authorize TransAlta's rate filing at the Commission. Bonneville asserts that the plain language of the Interconnection Agreement specifically authorizes TransAlta to seek compensation for reactive power service from a "regional reliability forum." Therefore, Bonneville contends that TransAlta's rate filing with the Commission should be denied.

14. Bonneville states that the parties intentionally limited TransAlta's ability to file for compensation for reactive power service to only a "regional reliability forum." Bonneville states that the parties could have easily drafted section 7(b) of the Interconnection Agreement in a manner to permit a filing with the Commission, if that had been their intent. Bonneville states the Commission's only authority under section 205 of the Federal Power Act is to determine whether the proposed rate is just and reasonable and, therefore, the Commission is without authority to reform the Interconnection Agreement. Bonneville further argues that the Mobile-Sierra doctrine prevents the Commission from using its ratemaking authority to abrogate the Interconnection Agreement unless the public interest demands such action.<sup>4</sup>

### **Policy Clarification**

15. Bonneville states that, prior to Order 2003-A, the Commission recognized two distinctive types of reactive power service.<sup>5</sup> The first type of reactive power service is reactive power as an ancillary service for transmitting power across the grid to serve load. The second type of reactive power service involves requiring load and generation to operate at the appropriate power factor, within the deadband, in order to maintain the voltage level for energy entering the grid during normal operations. According to Bonneville, the Commission found in Arizona that generators should not be compensated for maintaining the appropriate power factor within the deadband. Bonneville argues that TransAlta is providing the second type of reactive power service, operating within the deadband, and therefore is not entitled to compensation. Bonneville contends that when a

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<sup>4</sup> *Citing Union Pacific Fuels, Inc. v. FERC*, 129 F.3d 157, 161 (D.C. Cir. 1997).

<sup>5</sup> *Arizona Public Service Co.*, 95 FERC ¶ 61,128 (2001) (Arizona).

new generator interconnects with the transmission system the new generator is required to maintain voltage at the point of interconnection to ensure it does not degrade the system.

16. Bonneville states that in Order No. 2003–A, the Commission has reversed course and adopted a provision that provides that if a transmission provider pays its own or affiliated generators for reactive power service within the deadband, it must also pay the interconnection customer. Bonneville states that rehearing has been requested on this issue and that rehearing is currently pending.<sup>6</sup> Bonneville claims that by making this change, it is unclear whether the Commission intends to overrule its existing policy of distinguishing between the two types of reactive power. Bonneville states that the Commission should clarify its policy on this issue in this proceeding. Bonneville also requests that the Commission clarify that independent generators operating within the deadband, such as TransAlta, are not entitled to compensation or at least not in the same manner as generators under the control area operator's direct control.

## **Discussion**

### **Procedural Matters**

17. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2003), the timely, unopposed motions to intervene serve to make the entities that filed them parties to the proceeding. Given the early stage of this proceeding, their interest in this proceeding, and the absence of undue prejudice or delay, we will grant the untimely, unopposed motions to intervene out of time. Rule 213 (a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2003), prohibits the filing of an answer to a protest unless permitted by the decisional authority. Accordingly, TransAlta's answer is rejected.

### **Hearing and Settlement Judge Procedures**

18. As an initial matter, we find that TransAlta's Interconnection Agreement with Bonneville, which pre-dates Order Nos. 2003 and 2003-A, is a grandfathered agreement not subject to Order Nos. 2003 and 2003-A. As a result, the Commission's generator interconnection procedures in Order Nos. 2003 and 2003-A do not dictate the Commission's resolution of the issues in this proceeding.<sup>7</sup> Furthermore, Bonneville's

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<sup>6</sup> See Request for Clarification and/or Rehearing of American Electric Power Service Corporation, Docket No. RM02-1-001 (April 2, 2004).

<sup>7</sup> Standardization of Generator Interconnection Agreements and Procedures, Order No. 2003-A, FERC Stats. & Regs. ¶ 31,160 at P 137, 139 (2004).

request for clarification of the compensation issue presently pending before the Commission on rehearing of Order No. 2003-A is beyond the scope of this proceeding.

19. The other matters raised by Bonneville present issues of material fact that cannot be resolved based on the record before us, and are more appropriately addressed in the trial-type evidentiary hearing ordered below. These material issues of fact include, but are not limited to: (1) the type of reactive power service TransAlta is providing to Bonneville, *i.e.*, whether it is reactive power that Bonneville can use to provide reactive power ancillary service for transmitting power across the grid to some load and is entitled to compensation, or a so-called power factor service within the deadband and is not entitled to compensation; (2) TransAlta's proposed methodology to calculate its revenue requirement and the lack of cost support for the proposed revenue requirement; and (3) whether the Interconnection Agreement provisions preclude TransAlta from submitting a filing for rate approval with the Commission. Our preliminary analysis indicates that TransAlta's filing has not been shown to be just and reasonable, and may be unjust, unreasonable, unduly discriminatory or preferential or otherwise unlawful. Accordingly, we will accept the proposed rate schedule for filing, suspend it for five months, make it effective December 3, 2004, subject to refund, and set it for hearing and settlement judge procedures. In this regard, we find the proposed annual revenue requirement may be substantially excessive, thus warranting a five month suspension.<sup>8</sup> Additionally, to aid the expeditious resolution of this proceeding, which we are setting for hearing and settlement judge procedures, TransAlta will be directed to file its workpapers and detailed computations of its revenue requirement within 15 days of the date of this order.

20. While we are setting these matters for a trial-type evidentiary hearing, we encourage the parties to make every effort to settle their dispute before hearing procedures are commenced. To aid the parties in their settlement efforts, we will hold the hearing in abeyance and direct that a settlement judge be appointed, pursuant to Rule 603 of the Commission's Rules of Practice and Procedure.<sup>9</sup> If the parties desire, they may, by mutual agreement, request a specific judge as the settlement judge in the proceeding; otherwise, the Chief Judge will select a judge for this purpose.<sup>10</sup> The settlement judge shall report to the Chief Judge and the Commission within 60 days of the date of this

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<sup>8</sup> West Texas Utilities Company, 18 FERC ¶ 61,189, at 61,374 (1982).

<sup>9</sup> 18 C.F.R. § 385.603 (2003).

<sup>10</sup> If the parties decide to request a specific judge, they must make their joint request to the Chief Judge by telephone at (202) 502-8500 within five days of this order. The Commission's website contains a list of Commission judges and a summary of their background and experience ([www.ferc.gov](http://www.ferc.gov) – click on Office of Administrative Law Judges).

order concerning the status of settlement discussions. Based on this report, the Chief Judge shall provide the parties with additional time to continue their settlement discussions or provide for commencement of a hearing by assigning the case to a presiding judge.

The Commission orders:

(A) TransAlta's proposed rate schedule for reactive power service is hereby accepted for filing and suspended for five months, to become effective December 3, 2004, subject to refund, as discussed in the body of this order.

(B) Pursuant to the authority contained in and subject to the jurisdiction conferred upon the Federal Energy Regulatory Commission by section 402(a) of the Department of Energy Organization Act and by the Federal Power Act, particularly sections 205 and 206 thereof, and pursuant to the Commission's Rules of Practice and Procedure and the regulations under the Federal Power Act (18 C.F.R. Chapter I), a public hearing shall be held concerning TransAlta's proposed rate schedule for reactive power service. However, the hearing shall be held in abeyance to provide time for settlement judge procedures, as discussed in Paragraphs (C) and (D) below.

(C) Pursuant to rule 603 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.603 (2003), the Chief Administrative Law Judge is hereby directed to appoint a settlement judge in this proceeding within fifteen (15) days of the date of this order. Such settlement judge shall have all powers and duties enumerated in rule 603 and shall convene a settlement conference as soon as practicable after the Chief Judge designates the settlement judge. If the parties decide to request a specific judge, they must make their request to the Chief Judge within five (5) days of the date of this order.

(D) Within sixty (60) days of the date of this order, the settlement judge shall file a report with the Commission and the Chief Judge on the status of the settlement discussions. Based on this report, the Chief Judge shall provide the parties with additional time to continue their settlement discussions, if appropriate, or assign this case to a presiding judge for a trial-type evidentiary hearing, if appropriate. If settlement discussions continue, the settlement judge shall file a report at least every sixty (60) days thereafter, informing the Commission and the Chief Judge of the parties' progress toward settlement.

(E) If settlement judge procedures fail and a trial-type evidentiary hearing is to be held, a presiding judge, to be designated by the Chief Judge, shall, within fifteen (15) days of the date of the presiding judge's designation, convene a conference in these proceedings in a hearing room of the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, DC 20426. Such conference shall be held for the purpose of establishing a procedural schedule. The presiding judge is authorized to establish

procedural dates, and to rule on all motions (except motions to dismiss) as provided in the Commission's Rules of Practice and Procedure.

(F) TransAlta is hereby directed to file workpapers and detailed computations of its revenue requirement within 15 days of the date of this order.

By the Commission. Commissioner Kelly not participating.

( S E A L )

Magalie R. Salas,  
Secretary.